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| Meeting of: | CABINET |
| Date of Meeting: | 19 NOVEMBER 2024 |
| Report Title: | TREASURY MANAGEMENT HALF YEAR REPORT TO SEPTEMBER 2024 |
| Report Owner / Corporate Director: | CHIEF OFFICER – FINANCE, HOUSING AND CHANGE |
| Responsible Officer: | NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT |
| Policy Framework and Procedure Rules: | Paragraph 22.5 of the Financial Procedure Rules require the Chief Finance Officer to report quarterly to Cabinet, summarising borrowing and investment activity and indicating compliance with any statutory or Council approved guidelines together with a half yearly and an annual report to Council. |
| Executive Summary: | <p>The report provides an update of Treasury Management activity for the half year period 1 April 2024 – 30 September 2024.</p> <p>As at 30 September 2024 the Council had £99.58 million of long term debt, £15.32 million of other long term liabilities and an overall net debt position of £69.90 million.</p> <p>The average interest rate for debt was 4.69% (excluding Salix borrowing which is interest free) and for investments it was 5.09%.</p> <p>The Council has a manageable maturity structure of borrowing, with its current debt repayable at various points over the next 30 years.</p> <p>The Council has complied with the Chartered Institute of Public Finance and Accountancy’s Treasury Management Code and Welsh Government Investment Guidance.</p> |

1. Purpose of Report

1.1 The purpose of this report is to:

- Report on the Treasury Management Indicators for the period to September 2024.
- Comply with the requirement of the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) ‘Treasury Management in the Public Services: Code of Practice’ (the CIPFA Code).

2. Background

- 2.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 2.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and, as a minimum, a semi-annual and annual treasury outturn report. The CIPFA Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters, and enable the Council to measure and manage its exposure to treasury management risks, and these are included throughout this report. Welsh Government (WG) guidance issued in November 2019 on Local Authority Investment's requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.
- 2.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition) (Prudential Code) includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the Prudential Code covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2024-25 complied with CIPFA's requirement and included the Prudential Indicators along with the details regarding the Council's non-treasury investments. The Capital Strategy and Treasury Management Strategy should be read in conjunction with each other as they are interlinked, as borrowing and investments are directly impacted upon by capital plans, and both were approved together by Council on 28 February 2024.
- 2.4 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:
- advice and guidance on relevant policies, strategies and reports
 - advice on investment decisions
 - notification of credit ratings and changes
 - other information on credit quality
 - advice on debt management decisions
 - accounting advice
 - reports on treasury performance
 - forecasts of interest rates
 - training courses

3. Current situation / proposal

3.1 External Context – Economic Background

- 3.1.1 Inflation, measured by the Consumer Price Index (CPI), rose by 1.7% in the 12 months to September 2024, however this was the first time since April 2021 that the rate has fallen below the UK Government's target of 2%. The largest downward contribution in the monthly change for the CPI annual rate was driven by transport, with the largest contributions from air fares and motor fuels. Conversely, the largest increase came from food and non-alcoholic beverages. Of significance for the next period is the rise in the retail energy price cap, which will impact CPI in October 2024.
- 3.1.2 With headline inflation lower, the Bank of England (BoE) cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%. The meeting minutes suggested sticky inflation remaining a concern among policymakers. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025. However, Arlingclose may revise their forecast following the recent budget announcement by the new Chancellor.
- 3.1.3 The financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year close to where they started.

3.2 Public Works Loan Board (PWLB) Lending Facility Advice

- 3.2.1 As the Council may need to borrow to support its capital programme, it continues to follow the PWLB requirement for borrowing to not invest in assets primarily for yield, or financial return, as this would prevent the Council from accessing funding from the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 3.2.2 The Council's treasury management activities are undertaken in line with CIPFA's Prudential Code for Capital Finance and CIPFA's Treasury Management Code. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. The Council has complied with the full requirements of both codes during the period to 30 September 2024.

3.3 Treasury Management update for period 1 April 2024 to 30 September 2024

3.3.1 The Council has complied with its legislative and regulatory requirements during the period 1 April to September 2024-25. The Treasury Management Strategy 2024-25 was approved by Council on 28 February 2024.

3.3.2 A summary of the treasury management activities is shown in the Treasury Management Half Year Report to 30 September 2024 at **Appendix A**. The Council's external debt and investment position on 30 September 2024 is shown in Table 1 below, and more detail is provided within the appendix. As with the previous year, no long-term borrowing has been taken out in 2024-25 so far and no debt rescheduling has been undertaken as there has been no opportunity to make significant savings. However, should the opportunity arise to reschedule any loans at a preferential rate, this would be done.

Generally, the Council has experienced favourable cash flows which have continued to provide surplus funds for investment and the balance on investments held on 30 September 2024 was £45.00 million, with an average interest rate of 5.09%. The total balance of investments has reduced slightly compared to those at the end of last financial year, 31 March 2024, when the balance held was £50.00 million, at an average interest rate of 5.02%. The short-term borrowing taken out for cashflow purposes at the end of the previous year has been fully repaid.

Table 1: Council's external debt and investment position as of 30 September 2024

| Investments for Treasury Purposes | Principal as at 31/03/2024 £m | Principal as at 30/9/2024 £m | Average Rate 30/9/2024 % |
|---|----------------------------------|---------------------------------|-----------------------------|
| External Long-Term Borrowing | | | |
| Public Works Loan Board | 77.62 | 77.62 | 4.70 |
| Lender's Option Borrower's Option | 19.25 | 19.25 | 4.65 |
| Salix Loans (interest Free) | 2.74 | 2.71 | NIL |
| Short Term Borrowing | 5.00 | NIL | NIL |
| Total External Long-Term Borrowing | 104.61 | 99.58 | 4.69* |
| Other Long-Term Liabilities | | | |
| Private Finance Initiative** | 12.97 | 12.47 | |
| IFRS 16 Leases | NIL | 2.85 | |
| Total Other Long-Term Liabilities | 12.97 | 15.32 | |
| Total Gross Debt | 117.58 | 114.90 | |
| Investments for treasury management purposes | | | |
| Local Authorities | 44.00 | 20.00 | 5.65 |
| Money Market Funds (instant access) | NIL | 18.50 | 5.00 |
| Banks | 6.00 | 6.50 | 3.63 |
| Total Treasury Investments | 50.00 | 45.00 | 5.09 |
| Net Debt | 67.58 | 69.90 | |

* Excluding Salix loans which are interest free

** (PFI) arrangement for the provision of a Secondary School in Maesteg 9.50 years remaining term

- 3.3.3 The £19.25 million in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054 though these may be rescheduled in advance of this maturity date with the lender having the ability to recall the debt at 2 intervals in the year, July and January. However, this is currently unlikely in the current interest climate and the option was not exercised on 22 July 2024.
- 3.3.4 The Total Other Long Term Liabilities figure of £15.32 million at 30 September 2024 includes £12.47 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The Other Long-Term Liabilities reflect leases required to be recognised under International Financial Reporting Standard 16 – Leases (IFRS 16), which is a new requirement for the recognition of assets that are leased, which previously would have not been recognised as assets on the balance sheet but charged as an expense through income and expenditure. The new accounting standard requires that for any leases not previously identified as assets, that a right of use asset is recognised on the balance sheet and an equal lease liability also recognised.
- 3.3.5 Both the CIPFA Code and Welsh Government Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Councils' agreed minimum credit rating.
- 3.3.6 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does not invest in any organisation below this level. Schedule A shows the equivalence table for credit ratings for Fitch, Moody's, and Standard and Poor's and explains the different investment grades.
- 3.3.7 There are no long-term investment (original duration of 12 months or more) outstanding as at 30 September 2024. All investments at 30 September 2024 are short term deposits including instant access and fixed term deposits.
- 3.3.8 The Treasury Management Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2024-25 set out in the Council's Treasury Management Strategy compared to the actual at 30 September 2024 are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the period.

4. Equality implications (including Socio-economic Duty and Welsh Language)

- 4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report; therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives because of this report.

6. Climate Change Implications

6.1 The Climate Change implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

7. Safeguarding and Corporate Parent Implications

7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon Safeguarding and Corporate parenting because of this report.

8. Financial Implications

8.1 The financial implications are reflected within the report and attached **Appendix A**.

9. Recommendations

9.1 It is recommended that Cabinet:

- Note the treasury management activities for 2024-25 for the half year period 1 April 2024 to 30 September 2024.
- Note the Treasury Management Indicators for the half year ending 30 September 2024 against those approved in the Treasury Management Strategy 2024-25.

Background documents

None